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UNITED NATIONS DEVELOPMENT PROGRAMME

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DP/PROJECTS/7266

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APPROVAL OF UNDP ASSISTANCE TO A PROJECT OF PANAMA

IPF:(1987-91) $4 446 000

(PAN/92/005) - Electric Sector Reform

Date of approval by the AC:[1/]	11 March 1992
Expected duration:	18 months
Proposed executing agency:	Government
Government implementing agency:	Ministry of Planning and Economic Policy
Third-party cost sharing:	$ 2 767 000 Source of funds: IDB
Total UNDP budget	$ 2 767 000

Project background

The political crisis of 1988 in Panama had serious repercussions in the country's economic activities. Despite the economic reactivation policy adopted after the return to normality, Panama has been unable to regain the economic dynamism which had existed prior to the crisis. GNP growth in 1990 was 3.4 percent, a significant drop from the 5% achieved during the previous five years. There has been a heavy impact among low income sectors, expressed in an unemployment rate of 20 percent in 1991 (compared to an average of 12 percent the previous five years) and 50 percent of the population living under the poverty line. This situation has been compounded by a public sector which has committed large volumes of public revenues towards financing services of low quality and which constitute a particular problem for an economy structured around provision of services to the international community through the Panama Canal, the International Banking Center, the Free Trade Zone and the International Shipping Registry.

Until the decade of 1980 IRHE, the state owned "Institute for Hidraulic Resources and Electrification" was operating in the electric sector jointly with private companies. During the seventies, all private companies were acquired by IRHE which then become the only electricity supplier. Big capital investments made in the seventies and eighties, greatly improved the basic generation infrastructure. However, in recent economic years, financial resources did not cover routine maintenance costs. As a result, many generation, transmission and distribution equipments deteriorated to a critical point.

UNDP assistance in the implementation of the Reform of the Public Sector Programme (RPSP) will concentrate in providing support to the Co-ordinating Unit of the Economic Program. Although this Unit will serve as implementing agency under the modality of National Execution, it is important to stress that (US)$ 7,654,300 (or nearly 75.0 percent) of the total UNDP budget will be executed in the form of subcontracts.

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[1/] **This Fact Sheet reflects the status of the project/revision at the time it was approved by the Action Committee; modifications to the project/revision may have occurred subsequently.**

Presently, the Government has requested UNDP technical assistance for the implementation phase of the Reform of the Public Sector Programme in four sectors: (1) telecommunications; (2) ports; (3) electricity; and (4) water and sewage.

Description of project

This project is part of a cluster of four projects which assist the implementation of RPSP. The immediate objectives of the project are to: (a) strengthen the Hydraulic and Electric Resources Institute's (IRHE) institutional organization; (b) establish a methodology for estimating IRHE's fixed costs and the cost of replacing fixed infraestructure; (c) develop a tarif structure for electrical services based on fixed costs; and (d) strengthen IRHE's capacity to administer environmentally sound energy projects.

Inputs

UNDP will provide four work-months for a international expert on tariffs, three work-months for a national expert on environment, five work-months for an expert in institutional development, 12.5 work-months of national consultants in electrical systems, and legal advise; two sub contracts in the fields of institutional strengthening and re-evaluation of fixed costs; and computers and office equipment.

Financial data

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Personnel	355 000
Subcontract	2 175 000
Equipment	49 000
Miscellaneous	188 000
Total	2 767 000

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